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THE WHITE HOUSE  
WASHINGTON

August 26, 1978

ATTENTION: Phil Wise

This is the transcript as mentioned in the Memorandum for the President on natural gas of the press briefing hosted by Stu Eizenstat and Jim Schlesinger.

This release should be attached to the package we sent for the President's attention.

Thank you.

David Rubenstein



THE WHITE HOUSE

WASHINGTON

August 26, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM SCHLESINGER  
FRANK MOORE  
STU EIZENSTAT  
JERRY RAFSHOON  
ANNE WEXLER

SUBJECT: Natural Gas

The press conference held by Stu and Jim yesterday should help dispell the impression that we altered our long-standing breeder position to secure Senator McClure's vote (the transcript from their conference is attached). However, we will still need to do more work with the press and key Senators next week to make certain they understand that the McClure agreement stands on its own merits and really does nothing to change our well-known opposition to construction at Clinch River.

Based on continuing conversations with Senators Hatfield, Bumpers, Sasser and Baker, we do not believe that the breeder agreement will affect Senate passage of the gas bill. The major problems continue to be those directly related to the substance of the conference report: the concerns of consumer-oriented Senators about high prices, the belief of producer-oriented Senators that immediate deregulation can be enacted next year, the opposition of Labor, the non-support (though not active opposition) of business, the misunderstandings about the bill's actual content, and the shortness of time before the adjournment.

Next week, although Congress is in recess, the White House - DOE task force working on the gas bill will continue efforts to develop support for it. Among other things, we will be holding major meetings at the White House with financial community leaders (such as David Rockefeller and A.W. Clausen), with leaders of farm organizations (almost all of which are strong supporters),



- 2 -

and with gas users from states with uncommitted Senators. In addition, we will continue to distribute materials to key Senate staff members and to meet with them.

We are clearly in a Senate fight as difficult as any we have faced. There can be no doubt that we will need to use all our resources to the fullest if we are to succeed.

Your phone calls from Plains were enormously helpful in locking up support from a number of Senators. And your calls from Wyoming, on the breeder agreement, have helped in persuading Senators like Baker, Bumpers, Hatfield and Sasser to keep their option open on the gas bill rather than defeat because of the breeder. But they clearly still have serious reservations.

We are hesitant to ask you to interrupt your vacation again to spend some time on natural gas, but we would like to make two recommendations that should be very beneficial to the effort:

1) We recommend that you call in a dozen or so reporters for about 10-15 minutes to discuss the importance of the natural gas bill -- to the energy program, to the trade deficit, to the dollar and to inflation. We strongly believe that your talking about the need for this bill, during your vacation, will demonstrate clearly the importance you attach to the bill as well as your intent to be personally involved in fighting for it. Such a story, at the beginning of the week, will help enormously to kick-off other Administration efforts during the week.

2) We recommend that, spread over the next week, you call an additional nine Senators whose support for the bill needs re-enforcement from you: Pell, Burdick, Glenn, Hart, Case, Sparkman, DeConcini, Percy and Hayakawa. Information about each of their positions is attached. They will be in their States this week, talking to the States' large gas users, and could well be influenced to change their position.

Also attached are brief talking points you might use with the press and the Senators.

*Will do  
Monday*

## TALKING POINTS ON THE NATURAL GAS COMPROMISE

- The world is watching to see if we can come to grips with our energy problem. In view of our Bonn commitments and the increasing concern over the dollar, we cannot afford to fail.
  - We must reduce our Foreign oil imports, which have increased tenfold since 1972 and are now costing us more than \$42 billion a year.
  - Of the four energy conference reports, the one on natural gas will have the greatest immediate effect on reducing our dependence on foreign oil.
  - The world recognizes this fact -- when rumors spread that the natural gas compromise will fail, as they did about two weeks ago, the dollar took an enormous beating; it fell in just one week 8% against the Swiss franc, 5% against the German mark, and 3.5% against the Japanese yen. When word of the conferees' agreement to a gas compromise was spread, the dollar stabilized and even rose slightly.
- The natural gas conference report is a sound compromise that will be good for the nation.
  - It does not give anyone or any region everything they would like, but it is fair, balanced and workable.
  - Natural gas pricing is one of the most controversial and emotional subjects the Congress has ever faced. Two gas bills have been vetoed. The Congress has not passed a gas bill in more than 20 years.
  - If this compromise fails, it is very unlikely that Congress would be willing to face this issue again for a number of years.
- It will increase supplies of our premium fuel for the nation's consumers while providing price certainty and new markets for the nation's producers.

- Even the Act's opponents do not dispute the critical fact that substantial additional quantities of natural gas will flow into the interstate market at prices below that of displaced alternate fuels.
- The bill will also make construction of the Alaska gas pipeline possible. Together with increased production in the lower 48 states, this could mean a 30 percent increase in interstate gas supplies by 1990. <
- This, in turn, could result in savings of well over 1 million barrels per day of imported oil by 1985, and \$5 to \$8 billion a year in our balance of payments. <
- The national gas market created by this bill will allow gas currently backed up in the intrastate market to flow into the interstate market -- where it is sorely needed.

-- The bill provides critical new incentives and certainty for the nation's producers of natural gas.

- It opens up the intrastate market to interstate demand.
- It provides certain, incentive prices.
- It removes burdensome FERC regulatory requirements on all new natural gas.
- It removes the uncertainty associated with the recent Supreme Court decision in the Southland case and simplifies federal regulations.

--- Increased supplies of natural gas at prices below alternate foreign fuels will be available for both homeowners and industrial users.

- Under the bill's incremental pricing provisions, the supply of gas throughout the nation will increase for residential and industrial users at prices WELL BELOW the cost of any other substitute fuels.

- In almost every region of the country, the industrial gas price in 1985 will still be well below the price of distillate -- assuming world oil prices stay constant -- and one-quarter the price of electricity.
- Significantly, the price of natural gas to industrial users, including the incremental pricing provision in the compromise, will be lower under this bill than the price would be under the Senate-passed Pearson-Bentsen deregulation bill without incremental pricing.
- There will also be expanding use of gas in industry, particularly the special process users for which gas is best suited.
- Under this bill, there will once again be enough gas at economical prices to resume home hook-ups.

-- Enactment of the Compromise will:

- Create a national market for gas.
- Greatly increase supplies for industry and homes.
- Cost the consumers no more than existing law.
- Substantially reduce oil imports.
- Protect home consumers.
- Provide substantial quantities of gas for new home hook-ups.

-- Failure of the Compromise will:

- Back-up sorely needed gas production in the intrastate market.
- Continue the trend of declining supplies in the interstate markets.
- Lead to the increasing use of higher priced foreign energy.

- Continue to occupy the Congressional calendar with a debate on natural gas in the coming years.
- Destroy the possibility for acting on a comprehensive energy program this year.

-- The country needs to pass this to have the stability and certainty that would be achieved by this natural gas bill. The alternatives to passage are unacceptable from both a national and international perspective. Too much is at stake for this bill to fail.

SUGGESTED SECOND ROUND OF SENATE CALLS

Pell	Sparkman
Burdick	DeConcini
Glenn	Percy
Hart	Hayakawa
Case	

PELL -- Previously committed, growing doubts concerning objections of users. Stress, even with incremental pricing, the bill will mean more gas for industry and homes in Rhode Island at prices below alternate fuels such as LNG or foreign oil.

BURDICK -- State utility commission is being negative, wavering. Stress agricultural exemption from allocations and incremental pricing, and increased supplier at cheaper prices.

GLENN -- Feeling effect from Metzenbaum. Stress supply and price consequences.

HART -- Genuinely undecided. Stress consequences of failure, no new intrastate gas, increasing imports of oil, deregulation in future.

CASE and SPARKMAN -- needs reinforcement.

DECONCINI -- State Commission negative. Wavering. Stress supply and price consequences. Beneficial to industry even with incremental pricing -- more gas believe substitute fuel costs.

PERCY -- Inclined to support, needs reinforcement, bipartisan aspect.

HAYAKAWA -- Previously against, being lobbied heavily back home for the bill. Flattered by call from you, recent possibility.

NOTE: Metzenbaum and Tower are suggesting in their Dear Colleague letter that the Conference report be recommitted and an emergency bill be passed that would allow intrastate sales to the interstate market during supply emergencies. If this should come up in your conversations, you might indicate that this is unacceptable because it does not address any of the fundamental longer term problems of the current split-market regulatory regime and all the uncertainties associated with it.

- 2 -

Without a permanent fix, there will not be a permanent solution to increasing interstate gas flows.

White House Statement on  
Breeder Reactor Compromise

The President has reached an understanding with Senator James McClure of Idaho that may provide the basis for resolving the Congressional deadlock over the future of the Administration's breeder reactor program. The understanding reached with Senator McClure last week included agreement to:

- Discontinue Clinch River and undertake a three-year Conceptual Design Study for an improved breeder reactor that addresses the President's non-proliferation concerns.
- The dollar figures for a vigorous three-year base breeder research and development effort: \$513M in FY '79 as specified in the Senate Energy and Natural Resources Committee Authorization Bill, and \$504M in FY '80 and \$520M in FY '81.
- Neither the three-year Conceptual Design Study nor the DOE R&D program are confined to liquid metal fast breeders and alternatives will be investigated.
- Fuels and technologies other than plutonium will be an important part of these efforts.

This compromise follows closely the broad outlines of the policy the President announced in April, 1977, and does not represent a "major shift" in Administration policy:

- In April, 1977, the President proposed to terminate the Clinch River Breeder Reactor Project and opposed immediate commercialization of a plutonium breeder.
- At that time and subsequently the President has steadily supported a vigorous R&D program on breeder reactors, including alternate fuel cycles to a plutonium breeder.

For the last year, the Administration has worked with many members of both the House--Chairman Teague, Congressmen Flowers and Fuqua, among other--and the Senate--Senators Church, Jackson, Johnston, McClure and others--to achieve these objectives of a vigorous R&D program as well as an end to the Clinch River Breeder Reactor.

In the President's discussions with Senator McClure, the breeder issue--as well as the natural gas issue--was each decided on its own merits.



AUGUST 25, 1978

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE

PRESS BRIEFING

BY

STUART E. EIZENSTAT

ASSISTANT TO THE PRESIDENT

FOR DOMESTIC AFFAIRS AND POLICY

AND

JAMES R. SCHLESINGER

SECRETARY OF ENERGY

3:55 P.M. EDT

MS. TOWNSEND: We have Stu Eizenstat and Secretary Schlesinger here this afternoon to talk to you about the natural gas bill.

Mr. Eisenstat will have a brief opening statement and then they will both be available for your questions.

As you know, this whole thing is available for broadcast. It is all embargoed until the conclusion of the briefing. Both of these gentlemen have some other commitments this afternoon, as many of you probably do. We would appreciate it if we could keep this as brief as possible.

MR. EISENSTAT: I am giving a statement on behalf of the President.

After nearly two years of effort, a Senate-House conference committee reached a natural gas compromise just last week. It does not give anyone everything they demanded, but it is fair, it is balanced, and it is workable. The compromise will not provide massive profits for producers which overnight decontrol would have allowed. Nor does it provide unrealistically low natural gas prices. But what it does do is this: It makes fresh new supplies of natural gas available for homes and for industries in every region of our country at prices below alternate fuels which these natural gas supplies will replace, and it insures adequate supplies in every consuming state.

It provides stability and increased markets and incentives to producers. It costs consumers overall no more than under existing law. It substantially reduces oil imports which depress our dollar and thereby cause further inflation. The President cannot afford the luxury of exclusive devotion to any single regional or economic interest. Enactment of this compromise is essential to protect the stability of our strong and vital economy, to protect our dollar and to protect the position of economic leadership which we have in the world.

The President is convinced that the United States Senate and House of Representatives will rise to their responsibilities just as the conference committee has already done.

The President expects that this matter of critical national importance will not be obscured by other issues.

MORE

Now is the time for statesmanship and for concern for the general welfare, not for endless contention over narrow issues.

Dr. Schlesinger and I will be glad to take your questions.

SECRETARY SCHLESINGER: Before any questions arise, there is one issue that has come up, and that concerns the LMFBR. Some years ago, when I left the AEC, my secretary observed to me, "Thank God we will never have to hear of the LMFBR again." (Laughter) Unfortunately, that prediction has not come true.

The subject of the breeder seems to exert some fascination perhaps because we are in the dog days of August, so let me go through what has been the President's position since the early days after he assumed office.

Early in the Administration, the President ordered a review of the breeder program. The Breeder Reactor Committee reviewed the Clinch River plant. The committee itself was split on whether or not the Clinch River plant should continue. There was universal agreement, however, amongst all members of that committee, that the Nation should maintain a nuclear fission backup and that we should have a strong R&D program on breeder technology.

This was reflected in the President's decision of the 7th of April, 1977, at which time he announced we should defer commercialization of the breeder, as well as defer reprocessing; and that we would continue with a breeder R&D program.

MORE

The compromise that has been discussed with Senator McClure is very close to the last compromise in the Senate Energy and Natural Resources Committee. This compromise also involves the discontinuation of Clinch River, the start on a conceptional design study for a new breeder demo. That design study will take some 30 months to complete.

In the spring of 1981, at the completion of that study, there will be an opportunity for both the Congress and the President to review that design study. The President has underscored and will continue to underscore that he has no commitment to construction at that time, and he is free to recommend, with regard to this improved design compared to Clinch River, whatever policies he desires at that time.

This is, of course, fully consistent with the policies that the President has enunciated from the first with regard to breeder activities. These issues were discussed with Senator McClure a week ago at the White House, as a follow-up to discussions that I and my staff had been having with Senator McClure and with other members on the Senate side subsequent to the defeat of the Flowers Amendment. The decision of the Administration to widen the basis of support for discontinuation of that plant and to increase somewhat above the previously assigned level the base technology program for breeder reactors was, we feel, desirable in terms of getting to the end of an impasse that has developed between the Congress and the President on this issue.

The numbers that have been agreed to by Senator McClure, by other members of the Energy and Natural Resources Committee, are \$513 million in 1979, fiscal year 1979. That is some \$63 million below the level that has been appropriated by the Senate Committee, Appropriations Committee, and the House Appropriations Committee. Basically it splits the difference or almost splits the difference between the Administration's position and the position that had been taken by the Appropriations Committees.

For fiscal year 1980, the program would decline to \$504 million; for the fiscal year 1981 it would rise slightly to \$520 million. These are in then-year dollars.

If the rate of inflation exists at all, the level of appropriations will decline in real terms. This program permits us to get on with certain safety-related facilities and fuel-related facilities, some of which are related primarily to the fast flux test facility which will start up in Washington State in the near future.

The overall result, we believe, is one that achieves the President's initial purposes which are to arrange for the discontinuation of Clinch River and to maintain an effective base technology program in the breeder area. While the basis of support in the Senate has been broadened, we take note that there continues to be some reluctance on the part of some Senators to support such discontinuation of Clinch River. Nobody in the Senate is bound by this agreement save a number of Senators who are prepared to support it. Obviously, Senators Baker and Sasser continue to be concerned about the future of the Clinch River Plant. Indeed, if a plant were to go forward under the new conceptional design study, a decision that would have to be taken in 1981, such a plant could well be located in Tennessee. But the Clinch River Plant, under this regime, would not be brought into the construction phase.

Thank you very much. Any questions?

MORE

Q Mr. Secretary, it seems that what you are saying is that, yes, you did make a deal with Senator McClure for his vote, but it was a deal you would have made anyway even had there not been a natural gas problem. Is that the thrust of it?

SECRETARY SCHLESINGER: That may be your inference. That is not what I have been saying. We would have moved ahead with the arrangements on the breeder reactor, irrespective of the natural gas compromise. Each subject was attacked on its own merits.

We believe that the natural gas compromise is appropriate, and so does Senator McClure. We also believe, and we were perfectly willing to settle for broader bases of support in order to bring to an end the disputes that have raged over the Clinch River plant.

Q Was it just a coincidence that the decision to go ahead in this way with the breeder reactor thing was consummated on the same evening that Senator McClure's signature was secured for the conference committee?

SECRETARY SCHLESINGER: I doubt that it was a coincidence. (Laughter) The fact is that Senator McClure wanted to express to the President his very firm convictions with regard to the breeder program in general. And at the time of the signing or prospective signing, he indicated he would like to talk to the President at the White House about the breeder issue.

Senator McClure, I believe, was concerned, not so much about the Clinch River plant, itself, but the possibility that worried him that with the demise of the Clinch River plant as a focus of breeder activity, that there would be also the possibility of a substantial decline in the base breeder technology program. That has never been the President's intention. But I do believe that there was concern on the part of Senator McClure and perhaps some other Senators.

He expressed that concern to the President and the President assured him that that had never been his intention.

Q Mr. Secretary, what is the difference between what the President told Senator McClure, especially as he has related it, and the Melcher Amendment that the Senate committee passed? Is there any difference at all? Is there any more money in what was discussed with Senator McClure?

SECRETARY SCHLESINGER: The difference is, I think, primarily with respect to a splitting of differences in money and the focusing of a three-year program instead of what had been a one-year program in the mark-up of the Senate Energy and Natural Resources Committee.

The Melcher Amendment, of course, did not involve forecasting what would happen in 1980 and 1981. That went to the heart of Senator McClure's concern that indeed we have a program that focuses our activities up until the decision

- 6 -  
point for the Congress and the President in 1981.

Q How much more money is involved?

SECRETARY SCHLESINGER: We would have spent something, in our program, the way we forecasted it, we would have spent something in excess of \$1.3 billion. The numbers here are somewhat in excess of \$1.5 billion over the three-year period. Consequently, the differences in money amount to something on the order of \$150 million to \$200 million.

MR. EIZENSTAT: It is important there to focus on what Jim earlier said the Congress was already doing for fiscal year 1979. Both the Senate and House Appropriations Committees had figures \$63 million above the compromise figure.

Q In light of the coalition that allied itself yesterday, do you still feel you have the votes, (a) to get natural gas through and (b) to cut off a filibuster if there is one?

SECRETARY SCHLESINGER: I think we will have the votes to cut off the filibuster and the votes to pass it in the Senate.

Q They seemed to indicate considerable more doubt than you just did.

SECRETARY SCHLESINGER: Well, there is a difference in perspective. I think that we will have the votes. We were not at all surprised by the signatures that appeared, nor the Members of the Senate who appeared at the press conference.

Q Even Senator Tower?

SECRETARY SCHLESINGER: Oh, quite right. I think that all of the Senators in question had indicated opposition to the bill. This is a combination of Senators coming together from either end of the political spectrum. Just as all natural gas compromises in the past have been a process of attempting to develop a consensus in the middle that forced off the polarization in the middle, all compromises for the last 22 years have failed in that attempt.

We do not expect to fail.

I should note that there are incorrigible differences among the Senators who signed the particular letter. Some of those differences are glossed over in the text of the letter. I was somewhat astonished to discover, for example, that the Senators who have been the defenders of the oil industry, now together with those who would destroy the oil industry, together in combination, take the position in this compromise that additional incentives will bring no greater production.

Now, I was also astonished to discover that the Senators on the other side were concerned lest there be too much regulation of producers. That seemed to me to cover over a degree of difference that is unbridgeable, save in regard to the question of whether or not to defeat what has been a compromise worked out painfully over 18 months.

MORE

On the 20th of April, 1977, he announced his desire to terminate the Clinch River Breeder Reactor. Since that time he has pursued his fundamental objectives consistently and persistently.

He has desired, one, to discontinue or terminate the Clinch River Plant. He desires this on the basis that the design is obsolete, that the plant is not cost effective. He desires it also in relation to American leadership on the non-proliferation issue. At the same time, he has held to the objective of discontinuing the Clinch River Reactor, he has also strongly supported an R&D effort in breeder technology across the board. This was reflected in his own budget submissions.

As many of you are aware, in both fiscal year 1978 and '79, there has not been unanimity in view between the Congress and the President. Last year the President vetoed the DOE Authorization bill, because it included continuation of the Clinch River.

Since last November and December, we have been engaged in continued discussion with members of both houses regarding the future of the breeder program and how best to reconcile the objectives of the Congress and of the President.

At the end of last year, these matters were closely discussed with members of the House Science and Technology Committee. It resulted in the Flowers Amendment which would have terminated Clinch River.

As you know, the Flowers Amendment lost 20 to 19. It was not reversed on the floor of the House of Representatives.

In the same time frame, we were negotiating with Senator Jackson, Senator Church and other members of the Senate Energy and Natural Resources Committee with the same objective in mind, to bring about a termination of the Clinch River Plant and to bring about an end to the impasse that had developed between the Congress and the President on this issue.

Discussions on the Senate side have resulted in the Melcher Amendment which, indeed, gives the authority to the Secretary of Energy to terminate Clinch River Plant and at the same time to start design work on a larger breeder reactor.

That was similar to what we had worked out with the House of Representatives in the Flowers Amendment. The Flowers Amendment which the Administration supported included continuation of generic licensing issues in relation to the Clinch River Plant itself without full attempt to license that plant. It involved completion and testing of components of selected critical components of the Clinch River Plant. It involved continuation of the engineering design team at almost full strength. Those were elements of the Flowers compromise. They were elements also of the compromise that was pushed by Senators Jackson and Church and which ultimately resulted in the Melcher Amendment agreed to by the Senate.

MORE

Q Mr. Secretary, did the President decide to announce this new policy to Senator McClure, the three-year program as opposed to the one-year program, the increase in funding on the very night you needed his signature for the natural gas compromise?

SECRETARY SCHLESINGER: The President did not announce a policy on the evening. What the President did with Senator McClure was to indicate his own concerns in the breeder program. He reiterated the fact that he expected to maintain the development of technologies directed to other than plutonium or sodium-cooled breeders. He indicated that he, himself, had always been a strong supporter of the technology effort in this area, that he indicated once again that he was insisting on the discontinuation of the Clinch River experiment and with regard to differences about prospective budget spending, no agreement was reached at that time.

We indicated the direction in which we would go, and those numbers were worked out subsequently.

Q But it was a new approach. You say so in your letter to the Energy Committee sent yesterday. You said you trust this new approach to the LMFBF by the Administration. Why announce it to him, then?

SECRETARY SCHLESINGER: I don't know that we announced a new approach to Senator McClure. It has been the objective of the Administration to have a breeder program that is focused and integrated. There has been some doubt on the part, apparently, of some Senators, indeed, that that has been the objective of the Administration and the President and more directly, the Department of Energy has been engaged in the process of giving certain form to what is a breeder program designed to be consistent with the 30-month study leading up to March 1981.

MR. EIZENSTAT: I might also add in response to that question, particularly in light of the defeat of the Flowers Amendment, which we had backed, we were obviously going to be in a conference situation in which even if the Senate did precisely what we had wanted, we would be asked for our position. That is the position we have been evolving to try to get a position that both the House and Senate, particularly in light of the Flowers defeat, could agree on. This is one which logically got us to the point where we wanted to get, and yet broadened our base.

That is something we would have been asked for in the conference anyway. It is a position that is consistent with the position we have taken all along.

Q Do you think it was a coincidence it was announced at that time?

MR. EIZENSTAT: I think what Jim said is Senator McClure had expressed his concern about the President's interest in the breeder program, the President simply repeated the position we have taken from the beginning which is that Clinch River should not be continued and that there should be funding for research. It was an issue that had been enjoined and we have been enjoining for 18 months, and it was a way to resolve it.

Q Did you talk to the President about this statement?

MR. EIZENSTAT: We have talked to the President about the statement.

Q Was that today?

MR. EIZENSTAT: Yes.

Q What was he doing? Did he clear it, or did he authorize it?

MR. EIZENSTAT: The President and I discussed it this morning in general terms and then later I have discussed it in specific terms with his staff.

Q Is the statement issued because you feel the bill is in deep trouble?

MR. EIZENSTAT: The statement is issued because we think that it is important that this natural gas debate focus on the critical issues that are involved. The fact that this natural gas bill itself reduces oil imports by as much as the other titles together, that in terms of the importance to our economy, terms of importance to our dollar, that it is critical. We want the public to know, and the Congress to know, that the President stands four-square for this compromise, is prepared to fight for it, and that it is critically important the debate on that issue be focused on the issues involved with the natural gas dispute, and not on other issues.

Q Mr. Schlesinger, you suggested you have no doubt the Natural Gas Act will not come up against a filibuster that cannot be brought back with cloture.

SECRETARY SCHLESINGER: I cannot speak for the intentions of the Senators, whether or not a filibuster occurs. I think we will have the votes to defeat a filibuster if indeed it should occur.

Q And you said now you had the votes to pass the bill?

SECRETARY SCHLESINGER: Yes, indeed.

Q Have you got a head count? What makes you so sure? There are a lot of people that say there is no way you can get it passed at this time or stop a filibuster.

SECRETARY SCHLESINGER: Well, I think that indeed we, amongst other people in town, do have a head count, but I am not planning to share it with you at this juncture.

Q Can I get back to Senator McClure? He disclosed what he said was an understanding with you and the Administration. Is that still an understanding or is it a misunderstanding?

SECRETARY SCHLESINGER: I believe it is an understanding. I sent to Senator McClure yesterday -- back to an earlier point, let me mention during this entire discussion that we have been having with Senator McClure we were also discussing this

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with other members of the committee, including Chairman Jackson of the full committee and Chairman Church of the subcommittee.

I sent Frank Church a letter, I believe it was yesterday, that indicated that we were on the way to resolving what has been a long impasse, consistent with some of the positions that he and Senator Jackson had taken at an earlier point. I also have taken some time to absorb the contents of Senator McClure's letter and sent to him a response today. The response underscores the two main elements in the agreement which we have reached with him with regard to funding, and with regard to discontinuation.

It pointed out in general we were prepared to follow the kinds of program that he had suggested, but indicated also that he had in his letter suggested a degree of detail with regard to the future of this program, that it would be premature for us to accept.

I don't think that constitutes disagreement. I think it is a misunderstanding to use the term you employed. I think there has been some difference with regard to detail and that those differences will have to be worked out not only with Senator McClure but with other members of the committee and ultimately with the members of the Senate and the House also.

Q The last three votes you got were Corman, Rangel and McClure. Now, Corman and Rangel came out and said they had reached an understanding on oil. McClure comes out and says he has got it on the breeder reactor.

The President said there were no deals made. Now, are these understandings not deals, or what is the position here?

SECRETARY SCHLESINGER: I think that you should understand that both Senators Domenici and McClure that evening came down prepared to sign, that there was no deal struck in that sense that you are employing the term, that we had discussions at the desire of Senator McClure with the President with regard to his concerns about the breeder program. But those were concerns by and large that the President was able to reassure him.

There were no problems. I am not sure what you refer to with regard --

Q Corman and Rangel said they reached an understanding with the President on oil regulation.

SECRETARY SCHLESINGER: Well, I think that Representative Corman's position with regard to that has been longstanding, that he had been long prepared to sign the natural gas compromise if we had the fifth bill. He was awaiting the fifth bill. We do not have the fifth bill as yet. But for many days prior to the evening, we were fully aware that Representative Corman was prepared to sign that agreement.

MR. EIZENSTAT: Another way to put it is he wanted to make sure we continued to want our crude oil equalization measure. We assured him we did, and would continue to fight for it.

Q Once you are successful on natural gas you say you will be, how quickly and what time frame will you have for turning to COET? Would you call a special session after the election to deal with that? Can that wait until next year?

SECRETARY SCHLESINGER: I think the answer to that is that we can't foretell what the outcome will be with regard to the Crude Oil Equalization Tax. I think the chances of the Congress enacting such a tax prior to election day are slim at best; that there is certainly the possibility of a special session. It has been raised by congressional leaders.

The Administration at this time has not in any way moved toward a position endorsing the desirability of a special session. But, as you well know, some of the leadership in both houses have suggested that it may be necessary to clean up some business. If we do not have the crude oil equalization tax this year, we are certainly going to go back and strive to get a tax that is similar next year.

The only equitable way to get to world oil prices, which the President indicated was his determination to reach, is to do so with this kind of crude oil tax. So we will be back next year if we are unsuccessful this year.

Q Mr. Secretary, your statement of you are so sure of having the votes to (a), override a filibuster, cut it off or get the thing.

How do you reconcile this with Senator Jackson's statement about the razor thin majority?

SECRETARY SCHLESINGER: I think that you can address that question to Senator Jackson. But my understanding of Senator Jackson's view indeed is that we have a narrow majority for the bill, for final passage of the bill.

I believe that Senator Jackson has the conviction that the filibuster, if it arises, will be relatively short, relatively thinly supported and will readily be beaten down.

Q It is narrow, thin, or narrow. Is it the same as razor thin?

SECRETARY SCHLESINGER: I think you must understand that the votes are different with regard to the two issues, that there are many Senators who may not support final passage who have strong convictions that the Senate should have the right to vote on a conference report without the intervention of a filibuster. Extended debate, perhaps, but not a continuing filibuster.

Such Senators indeed are prepared to vote for cloture, and there are a number of such Senators, sufficient, we believe, in number, so that cloture is assured. Senator Jackson, I think,

MORE

has indicated that the balance for the bill itself is thin. We hope to have a better margin than one that is razor thin.

Q Senators Hatfield and Bumpers said they were turned off by this arrangement by Senator McClure and are thinking of withdrawing support from the conference report.

SECRETARY SCHLESINGER: I think that was before they understood fully what was in the President's mind and what the arrangements called for. They may have gathered a misimpression from reading the newspapers.

Q Have you talked to them since then?

SECRETARY SCHLESINGER: Yes.

Q Are they back on the reservation? Are they with you?

SECRETARY SCHLESINGER: I would not want to speak for them. I think that they certainly better understand at the present time what is at hand than perhaps at the time they expressed concern.

Q Are you counting them as supporters for the Natural Gas Act then?

SECRETARY SCHLESINGER: I think it would be premature to share our head count with you.

Q Mr. Secretary, if there is no resolution on these basic issues, are you still going to go to China? That is an important question because that is viewed as a political trip and if there is still this chaos in the energy program --

SECRETARY SCHLESINGER: As of this juncture I am planning to go to China.

END

(AT 3:30 P.M. EDT)

THE WHITE HOUSE  
WASHINGTON

August 28, 1978

Zbig Brzezinski

The attached was returned in  
the President's pouch today  
and is forwarded to you for  
appropriate handling.

Rick Hutcheson

COMMON FUND



THE SECRETARY OF THE TREASURY  
WASHINGTON

August 17, 1978

MEMORANDUM FOR THE PRESIDENT

Subject: Common Fund

I understand that you will shortly be considering whether the Administration should initiate consultations with the Congress on U.S. participation in the Common Fund. I want you to know that I have very strong reservations about the whole enterprise, for three fundamental reasons.

First, the economic justification for any Common Fund which we could support is extremely small. Even its supporters agree that the real impact on developing countries would be tiny.

Second, we have a large number of far more important development issues under consideration by the Congress. The major effort that would be required to win Congressional approval of U.S. participation would clearly divert support from much more fundamental U.S. programs -- including bilateral and multilateral aid, the Witteveen Facility at the IMF, individual commodity agreements and trade measures which help the developing countries. The game would simply not be worth the candle. I feel that even raising the issue on the Hill may adversely affect these much more important programs.

Third, there is little chance that Congress would support U.S. participation at all unless you personally invested a great deal of effort and prestige in the project. Even then, success is not assured. In any event, as just indicated, your doing so would clearly hurt us on much more important issues by diverting your own time and that of much of the Administration.

I therefore believe that we should stick to the present U.S. negotiating position, excluding mandatory contributions to the Common Fund of the type envisaged

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Per, Rac Project

ESDN: NLC-120-14-11-3-1

BY 145 NARA DATE 6/12/13

by the LDCs which would clearly turn it into an aid institution. If necessary, I believe we can fashion a more limited approach based on contributions to a contingency reserve fund against possible losses by the organization, which the LDCs would accept if we -- and the other industrialized countries -- make it clear that we can go no further.

*may be best bet*

In combination with a narrowly defined "second window" this approach could thus avoid any significant foreign policy costs and might even generate modestly positive reactions. If we go to the Hill, I would thus start with this alternative -- or quickly fall back to it -- to avoid the larger costs outlined above. Even this modest version, however, may not be acceptable to the Congress without your heavy personal involvement.

*Mike*

W. Michael Blumenthal

~~CONFIDENTIAL~~

THE WHITE HOUSE

5052

WASHINGTON

23.

~~CONFIDENTIAL~~

August 18, 1978

*Be cautious  
in Congress  
J*

MEMORANDUM FOR: THE PRESIDENT  
FROM: HENRY OWEN *RO*  
SUBJECT: Common Fund

Attached are memoranda from Secretaries Vance and Blumenthal concerning the Common Fund. They differ about its merits and the form that it would take, but agree that there are serious Congressional obstacles. Under the circumstances, I believe the most useful next step would be intensive Congressional consultation about the advantages of the type of Fund that Cy proposes, in the course of which variants such as Mike proposes could also be explored. After that consultation we can judge better whether changes in US policy are feasible and desirable. Accordingly, I recommend that:

1. You authorize us to proceed with intensive Congressional consultation about the Common Fund as soon as the foreign aid bill has been passed (probably in late September). This timing will leave little time for fixing the U. S. position before negotiations begin in early October; we will try to accelerate consultations.

Approve ✓ Disapprove       

2. You direct that U. S. representatives at informal international meetings in the meantime indicate that we will consult intensively with the Congress about the unresolved issues and will frame our positions on these issues in light of the results of that consultation and of on-going international discussions.

Approve ✓ Disapprove       

3. You direct that the results of Congressional consultations be reported to you and that the PRC be asked promptly to give you agreed or divergent recommendations as to U. S. policy, in light of these results.

Approve ✓ Disapprove       

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

DECLASSIFIED

Per: Rac Project

ESDN: NLC-126-14-11-1-3

BY 1K5 NARA DATE 5/11/13

THE SECRETARY OF STATE  
WASHINGTON

~~SECRET~~

August 18, 1978

MEMORANDUM FOR: THE PRESIDENT  
FROM: Cyrus Vance *CV*  
SUBJECT: Common Fund

I believe it is politically important in the North/South context to move the Common Fund negotiations toward a timely, successful conclusion. The developing countries see the Fund as the touchstone of industrial countries' attitudes toward their aspirations and our support for it as an important indication of our commitment to a constructive North/South dialogue. The Bonn Summit and statements by you, Mike and me during the ASEAN Ministerial meeting have increased expectations that the U.S. will take the initiative at expected negotiations on the Fund this November.

I believe that we should make a vigorous effort to move forward. Our taking a major step towards the LDCs -- with a view to breaking the impasse in the next round of negotiations -- would be a positive political gesture. It would strengthen the climate in the UN, UNCTAD and other forums. On the other hand, failure to move forward will sour our relations with the LDCs in multilateral forums.

Negotiating an agreement with the LDCs on this issue, however, poses considerable difficulties, which merit careful consideration:

- We will have major difficulties securing Congressional approval - a treaty will be involved - and may not succeed.
- The Common Fund will compete for Congressional support and financing with other foreign economic policy issues which Mike Blumenthal and others consider to be of greater substantive economic importance to us and the LDCs.

~~SECRET~~

GDS

DECLASSIFIED

Per: Rac Project

ESDN: NLC-126-14-11-1-3

BY *KS* NARA DATE *6/11/13*



~~SECRET~~

-2-

- The contribution of a Common Fund to world economic welfare would be modest.

### Issues

Differences between developed and developing countries revolve around four issues: (1) direct contributions to the Fund versus cash deposits via individual commodity agreements, (2) need for a "second window" to finance development-type measures, (3) the precise terms of reference of the Fund, and (4) voting arrangements.

The U.S. -- together with other industrialized countries -- has proposed a Common Fund financed through pooling of the assets of individual commodity agreements. We have argued that the Fund does not need a second window because the financing of non-stabilization measures is best handled by existing international institutions -- though we have agreed the Common Fund could play a coordinating role. Finally, we want voting shares that reflect our stake in commodity trade and equity in the Fund.

The G-77 say there can be no Common Fund without direct contributions, although limited possibilities for compromise may exist. The G-77 position on voting may be more flexible, and they may agree that contributions to the second window can be voluntary.

### Direct Contributions for Price Stabilization (First Window)

The LDCs, particularly ASEAN, see direct contributions (the U.S. share probably amounting to \$50-100 million) as the sine qua non of the Common Fund. This level represents a scaling down of earlier demands. While direct contributions may not be essential to the financial viability of the Fund, the LDCs view them as: 1) symbolic of our political support for the Common Fund and for their objective of greater participation in the international economic system, 2) a means of shifting the burden of financing commodity agreements from developing to developed, socialist, and OPEC countries.

~~SECRET~~

~~SECRET~~

-3-

Our agreement to "up front" direct contributions would significantly improve prospects for the success of the negotiations, but it would not remove all obstacles. For instance, our insistence on voting arrangements satisfactory to us would run counter to the basic G-77 desire for a new institution controlled by the developing countries.

### Second Window

We could now agree to a second window based on voluntary contributions to finance such measures as commodity productivity improvements, research and development, and new product usage, without agreeing to contribute to this window. Some other developed countries are likely to contribute. The U.S. will be under increasing pressure to do so as well. Many African countries and the Indian Subcontinent believe they will not benefit from buffer stock financing arrangements. To them the second window will be more important than the first. Our willingness to make a contribution to it would significantly improve prospects for success in the negotiations, and might make it easier to reach agreement in a first window closer to our objectives.

### Terms of Reference

There is still a substantial difference of view over the appropriate terms of reference for the Common Fund. Some LDCs would like it to be very broad, permitting the Fund, for example, to intervene directly into commodity markets even when there is no agreed International Commodity Agreement for the Commodity in question, or permitting the Second Window to finance manufacturing activities that use primary products. The developed countries want a much narrower terms of reference with respect to both windows. This can probably be worked out in the negotiations.

### Decision-making

Some LDCs see the Common Fund as a key element in the New International Economic Order, as "their" institution which they will control. Needless to say,

~~SECRET~~

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-4-

the developed countries want to maintain at least a blocking minority. Moderate LDCs have indicated that the LDC position here is negotiable, but at best we can expect some tough negotiations on this.

### Congressional Considerations

In view of the precedent of individual commodity agreements (all of which have been treaties), the need for appropriations, and the nature of the Fund as a major "umbrella" commodity institution, it seems likely that the Senate would insist that it be presented as a treaty requiring advice and consent to ratification. Some members of Congress have told us recently that a Common Fund would be rejected by the Congress. I do not share that view if we properly prepare the ground. A major campaign on the Hill, supported by your strong personal involvement, would be necessary. Even so, it might not succeed.

The question of timing is also important. The 1979 legislative calendar will be crowded with other initiatives of great importance to the LDCs and ourselves, viz the MTN, IMF quota increase, aid legislation, and a World Bank capital increase. The Common Fund would compete with these initiatives for Congressional support and funds, and success in obtaining Congressional support for the Fund might come at the expense of these initiatives. On the other hand, to put off submission of any Common Fund agreement until 1980 would involve another set of problems, since 1980 will be a short session, shadowed by the election.

If, however, we stick to our present position, the negotiations are likely to fail, and the onus of failure will likely be on the United States. Acrimony in the North/South dialogue would be inevitable, though how damaging or enduring the fall-out might be is open to question since -- with the exception of a few countries (e.g., Venezuela) -- the Common Fund has not been a problem in our bilateral relations with LDCs.

~~SECRET~~

~~SECRET~~

-5-

Most other developed countries are anxious to move for political reasons and will join us if we move in a positive direction. The exception so far has been Germany. Schmidt has argued that a global export earnings stabilization scheme would be preferable to a Common Fund. In fact a similar scheme has been in existence for some time -- i.e. the IMF's Compensatory Finance Facility, which lends substantial sums to countries suffering export shortfalls. We are now looking for ways to improve this Facility. Schmidt's argument also ignores the political significance of the Common Fund to the LDCs.

There is obviously considerable room for trade-offs among the four major issues discussed above. Highly satisfactory decision-making arrangements would allow us to be more flexible on the terms of reference, for instance, and a willingness to make a contribution to the second window might permit successful negotiations on the basis of a very tight position on the first window. We will be working with Treasury and others during the next month to establish a detailed negotiating position if you give us the general go ahead now. You will have an opportunity to review the position before we begin negotiations.

Recommendation

That you approve our moving forward to achieve a timely and successful conclusion of the Common Fund negotiations. This will almost certainly require some form of direct U.S. contribution to the Fund. We should only take a firm position on this issue, however, after Congressional consultation (which we would undertake immediately after passage of the aid bill) has given us some view as to the chances of Congressional ratification.

✓ \_\_\_\_\_ Approve \_\_\_\_\_ Disapprove

See H Owen  
Memo  
J

~~SECRET~~

WASHINGTON

DATE: 21 AUG 78

FOR ACTION: FRANK MOORE (LES FRANCIS)

HAMILTON JORDAN

*Rec'd  
concur w/  
H. O'Neil*

*In Sale  
Held until after  
P return - no rush  
- per Ginsberg*

INFO ONLY: THE VICE PRESIDENT

JERRY RAFSHOON

STU EIZENSTAT

*RC  
Ginsberg*

SUBJECT: ~~CONFIDENTIAL~~ VANCE AND BLUMENTHAL MEMOS RE: COMMON FUND

+++++  
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +  
+ BY: 1200 PM WEDNESDAY 23 AUG 78 +  
+++++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

~~CONFIDENTIAL~~

DECLASSIFIED

Per: Rac Project

ESDN: NLC-126-14-11-2-2

BY: KS NARA DATE: 6/11/13

~~CONFIDENTIAL~~

THE WHITE HOUSE  
WASHINGTON

5052

28.

~~CONFIDENTIAL~~

August 18, 1978

MEMORANDUM FOR: THE PRESIDENT  
FROM: HENRY OWEN *HO*  
SUBJECT: Common Fund

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Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

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Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

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Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

DECLASSIFIED

Per: Rac Project

ESDN: NLC-126-14-11-2-2

BY *KS* NARA DATE *6/11/78*

THE SECRETARY OF STATE  
WASHINGTON

~~SECRET~~

August 18, 1978

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FROM: Cyrus Vance *crv*  
SUBJECT: Common Fund

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~~SECRET~~  
GDS

DECLASSIFIED  
Per: Rac Project  
ESDN: NLC-126-14-11-2-2  
BY: *KS* NARA DATE *6/11/13*

~~SECRET~~

-2-

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-4-

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~~SECRET~~

~~SECRET~~

-5-

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\_\_\_\_\_ Approve

\_\_\_\_\_ Disapprove

~~SECRET~~



THE SECRETARY OF THE TREASURY  
WASHINGTON

August 17, 1978

MEMORANDUM FOR THE PRESIDENT

Subject: Common Fund

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Per: Rac Project

ESDN: NLC-126-14-11-2-2

BY KS NARA DATE 6/4/83

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W. Michael Blumenthal

ID 784412

THE WHITE HOUSE

WASHINGTON

DATE: 21 AUG 78

FOR ACTION: FRANK MOORE (LES FRANCIS)

HAMILTON JORDAN

~~CONFIDENTIAL~~

INFO ONLY: THE VICE PRESIDENT

JERRY RAFSHOON

STU EIZENSTAT

SUBJECT: ~~CONFIDENTIAL~~ VANCE AND BLUMENTHAL MEMOS RE: COMMON FUND

+++++  
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +  
+ BY: 1200 PM WEDNESDAY 23 AUG 78 +  
+++++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ☒ NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

*will note*

DECLASSIFIED  
Per, Rac Project  
ESDN: NLC-126-14-11-2-2  
BY K5 NARA DATE 6/11/13

CONFIDENTIAL

THE WHITE HOUSE  
WASHINGTON

5052

28.

~~CONFIDENTIAL~~

August 18, 1978

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FROM: HENRY OWEN *HO*  
SUBJECT: Common Fund

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Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

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Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

DECLASSIFIED

Per: Rac Project

ESDN: NLC-NLC-126-14-11-3-1

BY *KS* NARA DATE *6/11/13*

THE SECRETARY OF STATE  
WASHINGTON

~~SECRET~~

August 18, 1978

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I believe it is politically important in the North/South context to move the Common Fund negotiations toward a timely, successful conclusion. The developing countries see the Fund as the touchstone of industrial countries' attitudes toward their aspirations and our support for it as an important indication of our commitment to a constructive North/South dialogue. The Bonn Summit and statements by you, Mike and me during the ASEAN Ministerial meeting have increased expectations that the U.S. will take the initiative at expected negotiations on the Fund this November.

I believe that we should make a vigorous effort to move forward. Our taking a major step towards the LDCs -- with a view to breaking the impasse in the next round of negotiations -- would be a positive political gesture. It would strengthen the climate in the UN, UNCTAD and other forums. On the other hand, failure to move forward will sour our relations with the LDCs in multilateral forums.

Negotiating an agreement with the LDCs on this issue, however, poses considerable difficulties, which merit careful consideration:

- We will have major difficulties securing Congressional approval - a treaty will be involved - and may not succeed.
- The Common Fund will compete for Congressional support and financing with other foreign economic policy issues which Mike Blumenthal and others consider to be of greater substantive economic importance to us and the LDCs.

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-- The contribution of a Common Fund to world economic welfare would be modest.

### Issues

Differences between developed and developing countries revolve around four issues: (1) direct contributions to the Fund versus cash deposits via individual commodity agreements, (2) need for a "second window" to finance development-type measures, (3) the precise terms of reference of the Fund, and (4) voting arrangements.

The U.S. -- together with other industrialized countries -- has proposed a Common Fund financed through pooling of the assets of individual commodity agreements. We have argued that the Fund does not need a second window because the financing of non-stabilization measures is best handled by existing international institutions -- though we have agreed the Common Fund could play a coordinating role. Finally, we want voting shares that reflect our stake in commodity trade and equity in the Fund.

The G-77 say there can be no Common Fund without direct contributions, although limited possibilities for compromise may exist. The G-77 position on voting may be more flexible, and they may agree that contributions to the second window can be voluntary.

### Direct Contributions for Price Stabilization (First Window)

The LDCs, particularly ASEAN, see direct contributions (the U.S. share probably amounting to \$50-100 million) as the sine qua non of the Common Fund. This level represents a scaling down of earlier demands. While direct contributions may not be essential to the financial viability of the Fund, the LDCs view them as: 1) symbolic of our political support for the Common Fund and for their objective of greater participation in the international economic system, 2) a means of shifting the burden of financing commodity agreements from developing to developed, socialist, and OPEC countries.

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Our agreement to "up front" direct contributions would significantly improve prospects for the success of the negotiations, but it would not remove all obstacles. For instance, our insistence on voting arrangements satisfactory to us would run counter to the basic G-77 desire for a new institution controlled by the developing countries.

### Second Window

We could now agree to a second window based on voluntary contributions to finance such measures as commodity productivity improvements, research and development, and new product usage, without agreeing to contribute to this window. Some other developed countries are likely to contribute. The U.S. will be under increasing pressure to do so as well. Many African countries and the Indian Subcontinent believe they will not benefit from buffer stock financing arrangements. To them the second window will be more important than the first. Our willingness to make a contribution to it would significantly improve prospects for success in the negotiations, and might make it easier to reach agreement in a first window closer to our objectives.

### Terms of Reference

There is still a substantial difference of view over the appropriate terms of reference for the Common Fund. Some LDCs would like it to be very broad, permitting the Fund, for example, to intervene directly into commodity markets even when there is no agreed International Commodity Agreement for the Commodity in question, or permitting the Second Window to finance manufacturing activities that use primary products. The developed countries want a much narrower terms of reference with respect to both windows. This can probably be worked out in the negotiations.

### Decision-making

Some LDCs see the Common Fund as a key element in the New International Economic Order, as "their" institution which they will control. Needless to say,

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the developed countries want to maintain at least a blocking minority. Moderate LDCs have indicated that the LDC position here is negotiable, but at best we can expect some tough negotiations on this.

### Congressional Considerations

In view of the precedent of individual commodity agreements (all of which have been treaties), the need for appropriations, and the nature of the Fund as a major "umbrella" commodity institution, it seems likely that the Senate would insist that it be presented as a treaty requiring advice and consent to ratification. Some members of Congress have told us recently that a Common Fund would be rejected by the Congress. I do not share that view if we properly prepare the ground. A major campaign on the Hill, supported by your strong personal involvement, would be necessary. Even so, it might not succeed.

The question of timing is also important. The 1979 legislative calendar will be crowded with other initiatives of great importance to the LDCs and ourselves, viz the MTN, IMF quota increase, aid legislation, and a World Bank capital increase. The Common Fund would compete with these initiatives for Congressional support and funds, and success in obtaining Congressional support for the Fund might come at the expense of these initiatives. On the other hand, to put off submission of any Common Fund agreement until 1980 would involve another set of problems, since 1980 will be a short session, shadowed by the election.

If, however, we stick to our present position, the negotiations are likely to fail, and the onus of failure will likely be on the United States. Acrimony in the North/South dialogue would be inevitable, though how damaging or enduring the fall-out might be is open to question since -- with the exception of a few countries (e.g., Venezuela) -- the Common Fund has not been a problem in our bilateral relations with LDCs.

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Most other developed countries are anxious to move for political reasons and will join us if we move in a positive direction. The exception so far has been Germany. Schmidt has argued that a global export earnings stabilization scheme would be preferable to a Common Fund. In fact a similar scheme has been in existence for some time -- i.e. the IMF's Compensatory Finance Facility, which lends substantial sums to countries suffering export shortfalls. We are now looking for ways to improve this Facility. Schmidt's argument also ignores the political significance of the Common Fund to the LDCs.

There is obviously considerable room for trade-offs among the four major issues discussed above. Highly satisfactory decision-making arrangements would allow us to be more flexible on the terms of reference, for instance, and a willingness to make a contribution to the second window might permit successful negotiations on the basis of a very tight position on the first window. We will be working with Treasury and others during the next month to establish a detailed negotiating position if you give us the general go ahead now. You will have an opportunity to review the position before we begin negotiations.

#### Recommendation

That you approve our moving forward to achieve a timely and successful conclusion of the Common Fund negotiations. This will almost certainly require some form of direct U.S. contribution to the Fund. We should only take a firm position on this issue, however, after Congressional consultation (which we would undertake immediately after passage of the aid bill) has given us some view as to the chances of Congressional ratification.

\_\_\_\_\_ Approve \_\_\_\_\_ Disapprove

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THE SECRETARY OF THE TREASURY  
WASHINGTON

August 17, 1978

MEMORANDUM FOR THE PRESIDENT

Subject: Common Fund

I understand that you will shortly be considering whether the Administration should initiate consultations with the Congress on U.S. participation in the Common Fund. I want you to know that I have very strong reservations about the whole enterprise, for three fundamental reasons.

First, the economic justification for any Common Fund which we could support is extremely small. Even its supporters agree that the real impact on developing countries would be tiny.

Second, we have a large number of far more important development issues under consideration by the Congress. The major effort that would be required to win Congressional approval of U.S. participation would clearly divert support from much more fundamental U.S. programs -- including bilateral and multilateral aid, the Witteveen Facility at the IMF, individual commodity agreements and trade measures which help the developing countries. The game would simply not be worth the candle. I feel that even raising the issue on the Hill may adversely affect these much more important programs.

Third, there is little chance that Congress would support U.S. participation at all unless you personally invested a great deal of effort and prestige in the project. Even then, success is not assured. In any event, as just indicated, your doing so would clearly hurt us on much more important issues by diverting your own time and that of much of the Administration.

I therefore believe that we should stick to the present U.S. negotiating position, excluding mandatory contributions to the Common Fund of the type envisaged

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Per, Rac Project

ESDN; NLC-126-14-81-3-1

BY KS NARA DATE 6/11/13

by the LDCs which would clearly turn it into an aid institution. If necessary, I believe we can fashion a more limited approach based on contributions to a contingency reserve fund against possible losses by the organization, which the LDCs would accept if we -- and the other industrialized countries -- make it clear that we can go no further.

In combination with a narrowly defined "second window" this approach could thus avoid any significant foreign policy costs and might even generate modestly positive reactions. If we go to the Hill, I would thus start with this alternative -- or quickly fall back to it -- to avoid the larger costs outlined above. Even this modest version, however, may not be acceptable to the Congress without your heavy personal involvement.



W. Michael Blumenthal

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FOR COMMCENTER USE ONLY

FROM: Charles Schultze  
TO: Susan Clough  
for the President

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SPECIAL INSTRUCTIONS:

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Mr. President - -

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THE CHAIRMAN OF THE /  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

EYES ONLY

August 28, 1978

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze

Subject: Merchandise Trade Balance and the CPI

Tomorrow morning (Tuesday) the July statistics will be released for the trade balance (10:30 a.m.) and the CPI (9:00 a.m.). The trade balance figures are very bad -- a \$3.0 billion deficit, up from \$1.6 billion in June. The CPI figures are good -- a 0.5 percent increase compared with 0.9 percent for the prior three months.

Merchandise Trade Balance

In July, imports rose by more than \$1 billion while exports fell by \$350 million, pushing the merchandise trade deficit up to \$3.0 billion.

billions of dollars  
(seasonally adjusted monthly rate)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1977	10.1	12.3	-2.2
1978 1Q	10.3	13.5	-3.2
2Q	11.8	14.1	-2.3
June	12.1	13.7	-1.6
July	11.8	14.8	-3.0

The July deterioration in the trade balance cannot be blamed on oil. Oil imports actually fell slightly. Most other major categories of imports rose. Steel and passenger car imports increased quite sharply.



Manufactured exports held up well in July, maintaining the high levels reached earlier. Agricultural exports fell off -- soybean exports dropped particularly sharply. Total exports in July, however, were still equal to the second quarter average and 15 percent above the first quarter.

We could not have expected the extraordinarily good performance of June to hold up. But the jump in the trade deficit in July was huge, and the two months taken together average an uncomfortably large \$2.3 billion deficit.

While the relatively good news on the CPI may offset some of the unfavorable reaction to the trade deficit figures, there could be some serious problems in the foreign exchange markets tomorrow.

### Consumer Prices

Overall, consumer prices went up just 0.5 percent last month, the smallest increase of any month this year. Food prices were unchanged. Prices of nonfood commodities and services, however, rose 0.7 percent, about the same rate as in earlier recent months.

The July decline of meat prices at wholesale foreshadowed a decline of 2.9 percent last month in prices of meat, poultry and fish at the grocery store. However, prices of fruits and vegetables continued to rise last month, by 1.2 percent. Since the summer vegetable crop is very ample, we should see some relief of price pressures in this area over the next month or two.

Prices of nonfood items continued to be pushed up in July by rising costs of housing (up 0.8 percent), and including a further substantial increase in mortgage financing costs. New and used car prices also rose sharply in July. Apparel prices fell last month, possibly reflecting recent weakness in retail sales.

The unabated rise of nonfood commodity and service prices is obviously disconcerting, but the leveling out of food prices is certainly very good news. With a little luck, moderation in the food price area will continue to hold the overall rise of consumer prices in the 0.5 to 0.6 percent range in the months to come.

I am attaching a suggested response for Jody to press questions. Both Treasury and CEA will respond in the same way.

Given the nervousness in the foreign exchange markets, it is conceivable that someone may ask if your decision to return to Washington early was connected with the bad trade figures. If asked, Jody should stress that you did not even know about these figures until Monday night.

\*\*\*\*\*

Suggested Reaction for Jody Powell

The moderation in the rise of consumer prices in July is very heartening. We had been expecting the rise in food prices to abate during the latter half of the year, and that expectation is being realized. There is good reason to look for comparatively small increases in food prices over the remainder of the year. The 0.7 percent rise in consumer prices for items other than food in July, however, indicates that the underlying inflation rate is still too high. We are determined to continue our efforts to bring it down.

While we are disappointed that the favorable trend in the June trade figures did not continue in July, we note that exports continued at close to the strong level of the second quarter, which was a 15 percent improvement over the first quarter. We expect that import figures will improve in coming months as recent exchange rate adjustments affect the demand for foreign products, and that the overall trade deficit will resume its decline.

THE WHITE HOUSE

WASHINGTON

8/28/78

Mr. President --

If you veto, original legislation must be processed and sent to Capitol Hill by midnight. I therefore returned the bill to D.C., and when you decide which action you will take, I'll let Rick H. know by phone whether the veto message or bill should be autopenned. (He doesn't like the idea of autopen, but it didn't seem to me we had too much of an option. In view of transportation problems and time change/time element, this was the only way I could figure out how to comply with legal aspects and also give you time you need.) I will also let Rick know if the language contained in veto message or attached suggested signing statement submitted by Stu while you were fishing is to be changed.

Fran says that Senator Magnuson will be available anytime by telephone today after 5:00 p.m. our time.

After you talk to Frank Moore and have taken whatever action you choose, please either call me or have Eddie call me.

Thanks--Susan

*Jep sign*  
*J*

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT *D. L. Eizenstat*

SUBJECT: Enrolled Bill H. R. 10732 -- Concerning  
Fish Processing

I understand from Frank that you have some concerns about the fisheries bill.

As I indicated in my memorandum on this bill, I think the political concerns of vetoing the bill far outweigh any trade benefits to be gained from a veto. As you know, Bob Strauss strongly agrees with that view.

If you decide to sign the bill, you might want to issue a statement indicating your concerns about the bill. I have prepared such a statement; it has been approved by Bob Strauss and OMB (though OMB would still prefer a veto). The statement is as follows:

## SIGNING STATEMENT FOR H.R. 10732

I am today signing H.R. 10732, which amends the Fishery Conservation and Management Act of 1976. This bill authorizes Fiscal Year 1979 appropriations to implement the Act, which first established the 200-mile Fishery Conservation Zone off the coast of the United States.

This bill also establishes a permit system for foreign fish processing vessels within the 200-mile limit. Under this system, government permits would be granted to foreign fish processors to purchase fish caught by U.S. fishermen within the 200-mile zone only if domestic processors do not have the capacity or intent to process these fish. To date, domestic processors have not purchased such fish as hake and pollock, which have no domestic market. Foreign processors, however, have become interested in these fish because of clear foreign demand.

My Administration is strongly committed to reducing barriers to international trade. I am therefore concerned that the establishment of this permit system may be viewed by some foreign nations as an interference with international commerce. When Congress was considering this bill, we made clear our preference for a permit system lasting only for two years, rather than permanently.

However, I believe that this bill will in practice cause little if any adverse impact on foreign fish processors, while providing domestic processors with increased certainty about fish supplies.

During the legislative process, the Administration also made clear our objection to a provision which would have denied permits to processors from countries with import barriers to U.S. fish and fish products. That provision would have conflicted directly with our trade policies. I am pleased that this provision was deleted by Congress.

In signing this bill into law, I do not intend to set a precedent for other United States products.

THE WHITE HOUSE    LAST DAY FOR ACTION  
WASHINGTON        Monday, August 28

August 25, 1978

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT  
KATHY FLETCHER



SUBJECT:        Enrolled Bill H. R. 10732 -- Amends Fishery  
Conservation and Management Act of 1976

You must decide whether to sign or veto this bill by  
Monday, August 28, 1978.

THE BILL

This bill would:

- authorize a Fiscal Year 1979 appropriation of \$30 million for carrying out the provisions of the Fishery Conservation and Management Act (the 200-mile limit law). This is \$9.9 million more than the \$20.1 million requested, but the Senate and House-passed appropriation bills contain amounts close to that requested;
- authorize the Secretary of Commerce to issue permits to foreign fish processing vessels which intend to buy fish from U. S. fishermen within the U. S. 200-mile fishery conservation zone only if the Secretary determines that U. S. fish processors do not have the capacity or intent to handle fish caught by U. S. fishermen in the fishing area concerned (under current law, a permit may be denied only if the activity would be inconsistent with the conservation and management principles in the Act); and
- require the Secretary of the Treasury, in cooperation with the Secretaries of Commerce and State, to submit by July 1 of each year a report to the President and the Congress which lists (1) all allocations by species of fishery levels in U. S. fisheries made to foreign nations by the Secretary of State and all permits issued by the Secretary of Commerce authorizing foreign processing at sea of any excess U. S. harvested fish, and (2) all tariff and nontariff trade barriers imposed by these foreign nations on the importation of such species of fish from the United States.

The most significant issue posed by this legislation is the permit system designed to protect the domestic fish processing industry. During the last year, the Commerce Department issued six permits for "joint ventures" between U. S. fishing vessels and foreign processing vessels (2 Korean and 4 Soviet), causing concern among U. S. processors, particularly in the Pacific Northwest. Most of the interest in foreign processing relates to fish species not currently consumed in the United States, such as hake and pollock. Although nearly all fish caught by U. S. fishermen is processed domestically, U. S. processors are concerned that competition from foreign processors will increase, particularly if the U. S. begins to process these "underutilized" species. The permit system established in this legislation would allow foreign processing only if U. S. processing capacity is inadequate to handle the catch.

In June you received a decision memorandum and agency views on an earlier version of this legislation. At that time, the legislation would have also allowed the Secretary of Commerce to deny permits to countries with trade barriers against importation of U. S. fish or fish products. As a result of your decisions, the Administration took the position (1) that the protections for U. S. processors should be established only for a two-year period and (2) that the trade barrier provision should be deleted.

The bill as passed creates a permanent permit system to protect U. S. processors but the objectionable trade barrier provision was deleted. (Your original decision memorandum is attached.)

The Commerce Department did not notify key members of Congress that the bill might be vetoed since your position was to seek modifications, limit the violation of GATT posed by the protections for U. S. processors, but not to threaten veto.

#### VOTES IN CONGRESS

House: 329-55  
Senate: voice vote



ARGUMENTS FOR SIGNING

- The permit system will not exclude foreign fish processors until and unless U. S. processing capacity expands to include fish species not currently used in the United States. Therefore, the substantive impact on foreign processors will be negligible, at least in the short term. In the longer term, the viability of the U. S. fish industry is dependent in part on increasing use of "underutilized" species. This legislation will provide certainty to the processors who are considering investments in increased capacity.
- This legislation is politically very important in the Pacific Northwest and is of particular interest to the Washington State delegation.
- New England will also be benefitted by this legislation because of increasing restrictions on fishing certain depleted stocks. Fishermen and processors intend to expand into "underutilized" species in order to stay in business.
- Although aware of Administration concerns, the bill's sponsors would justifiably be surprised if the bill were not signed.
- It is arguably justifiable for domestic fish processors to have preference over foreign interests for fish caught within the 200-mile limit, comparable to the preference enjoyed by domestic fishermen. Foreign processors do not meet U. S. wage and OSHA standards and can therefore pay more for raw fish.
- Preference for domestic fish processors may increase the United States' ability to export fish and fish products. In addition, it will reduce U. S. dependence on foreign-processed fish; we currently have a \$2.6 billion trade deficit in fish products. Much of the fish caught or processed by foreign vessels within our 200-mile limit is imported into the United States.

#### ARGUMENTS FOR VETO

- The thrust of this bill is contrary to our general policy of reducing barriers in international commerce.
- Foreign nations may view this legislation as a violation of the General Agreement on Tariff and Trade and retaliate against U. S. trade interests.
- The imposition of the permit system might be viewed as contradictory to current U. S. efforts on the Tokyo Round to limit the use of export controls.
- Although U. S. processors would benefit from this legislation, U. S. fishermen might be hurt because there would be less competition among raw fish purchasers. However, fishermen support this legislation.
- There might also be inflationary pressure on domestic fish prices to the consumer because domestic processors would be able to obtain fish regardless of process efficiency.

#### AGENCY AND STAFF RECOMMENDATIONS

OMB, State, Treasury, the Council on Wage and Price Stability and the Office of the Special Trade Representative recommend that you veto this bill. The Department of Commerce recommends approval.

The Vice President, Frank, Anne, Jack, other White House staff and I agree that this bill is not ideal trade policy. However, we strongly recommend against a veto. All agencies agree that there will be no measurable economic impact in the near term. This bill is symbolically important in the Northwest. More important, a veto would be severely embarrassing to Senator Magnuson -- who will also feel he has been given inadequate notice -- and would not be helpful to our relations with Senator Jackson. Senator Magnuson's cooperation is essential to our efforts to delay the Defense Appropriation pending resolution of the Defense Authorization veto -- and clearly Senator Jackson's cooperation is essential on natural gas.

DECISION

\_\_\_\_\_ Sign H. R. 10732

\_\_\_\_\_ Veto H. R. 10732

THE WHITE HOUSE

WASHINGTON

August 25, 1978

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *Stu*  
FRANK MOORE *F.M./BR*  
ANNE WEXLER *Ann*

SUBJECT: Enrolled Bill H.R. 10732 -- Concerning  
Fish Processing

We would like to stress the importance of signing this bill. It is not an ideal piece of legislation from an international trade standpoint. However:

- o The bill's sponsors are critical to our efforts on the defense authorization veto (Magnuson), energy legislation (Jackson) and Panama Canal implementation (Murphy).
- o We must have a solid strategy on sustaining important vetoes and not hamper ourselves with unplanned vetoes of less important bills.
- o The concerns about this bill have been overblown by the agencies recommending a veto. We do not think it will have a substantial impact on our trade posture, and it will have some positive effect on the domestic fish industry.
- o Bob Strauss stated that, based on discussions which Frank Moore's staff has had with Senator Magnuson, he feels that the bill should not be vetoed because of its impact on Magnuson and on our natural gas bill, although on trade grounds STR's recommendation is correct.
- o This bill is politically very significant in the Pacific Northwest and a veto would engender both surprise and hard feelings.
- o Since our position was to seek modifications in the bill, some of which were made, the Commerce Department did not notify key members of Congress that the bill might be vetoed.



# EXECUTIVE OFFICE OF THE PRESIDENT

## OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

AUG 23 1978

### MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 10732 - Amends Fishery  
Conservation and Management Act of 1976  
Sponsor - Rep. Murphy (D) New York and 24 others

#### Last Day for Action

August 28, 1978 - Monday

#### Purpose

Authorizes fiscal year 1979 appropriations for the Fishery Conservation and Management Act of 1976; limits the ability of the Secretary of Commerce to issue permits to foreign fish processing vessels within the 200-mile zone; and requires an annual report by the Secretary of the Treasury on fishery allocations and permits issued to foreign nations within the zone and on tariffs imposed by these nations on fish from the U.S.

#### Agency Recommendations

Office of Management and Budget	Disapproval (Veto message attached)
Department of State	Disapproval (Veto message attached)
Department of the Treasury	Disapproval
Council on Wage and Price Stability	Disapproval
Office of the Special Representative for Trade Negotiations	Disapproval
Department of Commerce	Approval (Signing statement attached)

#### Discussion

H.R. 10732, which passed both Houses by voice vote, would amend the Fishery Conservation and Management Act of 1976 (FCMA) to:

- authorize a fiscal year 1979 appropriation of \$30 million for carrying out the provisions of the FCMA (this is \$9.9 million more than the \$20.1 million requested, but the Senate and House-passed appropriation bills contain amounts close to that requested);
- authorize the Secretary of Commerce to issue permits to foreign fish processing vessels which intend to buy fish from U.S. fishermen within the U.S. 200-mile fishery conservation zone only if the Secretary determines that U.S. fish processors do not have the capacity or intent to handle fish caught by U.S. fishermen in the fishing area concerned (under current law, a permit may be denied only if the activity would be inconsistent with the conservation and management principles in the Act); and
- require the Secretary of the Treasury, in cooperation with the Secretaries of Commerce and State, to submit by July 1 of each year a report to the President and the Congress which lists (1) all allocations by species of fishery levels in U.S. fisheries made to foreign nations by the Secretary of State and all permits issued by the Secretary of Commerce authorizing foreign processing at sea of any excess U.S. harvested fish, and (2) all tariff and nontariff trade barriers imposed by these foreign nations on the importation of such species of fish from the United States.

#### Background

The Fishery Conservation and Management Act of 1976 created a system to regulate the taking of fish by both American and foreign fishermen within the 200-mile zone contiguous to the United States. The Act requires foreign fishing vessels and foreign fish processing vessels (where fish are cleaned and packaged) to acquire a permit from the Department of Commerce before fishing in the zone or buying and processing fish taken from the zone.

During the last year, the Secretary of Commerce received applications for fishing activities within the 200-mile zone for "joint ventures" between U.S. fishing vessels and six foreign ship processing vessels (2 Korean and 4 Soviet vessels). Under this approach, the U.S. fishermen would

catch fish not usually sold in the U.S. market--e.g., hake and pollock--and sell them to foreign processors. The Commerce Department determined that the Secretary had no legal basis to deny such applications on the grounds of any impact on the U.S. fish processing industry. The Secretary has approved the applications for all six vessels.

Currently American fish processors handle practically all fish caught by U.S. fishermen for domestic consumption. However, considerable concern regarding the applications was expressed by the domestic fish processors who state that they are just beginning to develop the capacity to process these species of fish and want to avoid competition from foreign processors. They believe that domestic processors should benefit from the same type of protection given U.S. fishermen, i.e., preference over foreign nations within our 200-mile fishery zone. Opposition to issuing permits to foreign fish processors was especially intense in the Pacific Northwest and Alaska. (The Senate version of the bill (S. 3050) was sponsored by Senators Magnuson, Jackson, Stevens and Hatfield. The 6 sponsors of the original bill introduced in the House (H.R. 12805) containing the permit restriction were all from the West Coast.)

In June, an OMB-Domestic Policy Staff memorandum to you sought your decision on a similar Senate bill. Your decision was to (a) go along with the limitation on the Secretary's authority to issue permits to foreign fish processing vessels if it were amended to apply only for a two-year interim period while Commerce completed a study of the U.S. fishing industry, and (b) oppose a tariff provision which would have allowed the Secretary to withhold permits if the foreign nation had greater trade barriers against the importation of fish or fish products than those imposed by the U.S. This position was conveyed in writing to the House by the Commerce Department. (The Department's report proposing the two-year limitation did not indicate how strongly the Administration would oppose the bill if the amendment was not accepted.) In response, the Congress deleted the tariff provision but substituted a provision that allows the Secretary of Commerce "to take into account, with respect to the foreign nation concerned, such other matters as the Secretary deems appropriate." The Congress did not accept the Administration's proposed two-year limitation on the permit restriction.

### Agency Views

Commerce recommends approval on the grounds that "Without legislation of this type the U.S. fish processing industry could be faced with serious problems as a result of competition by foreign floating processing plants. For example, these plants use labor not paid according to U.S. wage standards and not required to meet other requirements of U.S. labor law. As a result, the foreign processors could afford to pay more for the U.S. caught fish than some U.S. processors. This could lead to the closing of some processors and the resultant elimination of jobs in the U.S. and would have economic consequences throughout the entire U.S. fishing industry." The Department also proposes, however, that you issue a signing statement which would indicate your "concerns regarding possible adverse effects on international economic relations, and the Administration's intent to work with the Congress and its trading partners concerning the preference for domestic fish processors."

State, Treasury, the Council on Wage and Price Stability and the Special Representative for Trade Negotiations all recommend disapproval. The major arguments made by these agencies are:

- The export controls provided by this bill would be in violation of the General Agreement on Tariff and Trade (GATT) which could prompt retaliation against U.S. trade interests (STR).
- The imposition of export controls would be inconsistent with the Administration's policy of opposition to such controls and current U.S. efforts in the Tokyo Round to establish a set of rules which would limit the use of export controls (STR, State, Treasury).
- Enactment of this bill would set a dangerous precedent by requiring export controls to provide domestic processors with low-priced raw materials (export controls have been used on only a few occasions to provide for a serious domestic shortage of raw materials) (STR, Treasury, State).
- The bill would enhance the interests of U.S. fish processors at the expense of U.S. fishermen by forcing them to sell their catches on terms which



may not be the most profitable to them. This threatens to establish a guaranteed market share for domestic firms regardless of their operating efficiency, which could result in higher prices for fish in U.S. food markets. (CWPS, State, Treasury).

- This legislation is unnecessary since protection for the U.S. fish and fish processing industry is now being sought in the Multilateral Trade Negotiations. We have requested a number of countries to reduce their barriers to U.S. exports of products which, if favorably responded to, would enhance export opportunities for the U.S. fish processing industry (STR).
- A restriction on fish exports is incongruous since the imposition of the 200-mile zone may make the U.S. a major fish exporter in coming years (State).

In this connection Robert Strauss, in his attached letter on the bill, concludes that "Given these very serious trade considerations, STR recommends that H.R. 10732 be vetoed by the President unless there are compelling domestic or international policy arguments for enacting this legislation which this Office is not aware of."

#### Analysis and Recommendation

The premise on which this legislation is based is that the U.S. fish processing industry will face severe economic problems because of potential competition from foreign ship processors. There is no compelling evidence at this time, however, to support this contention. All fish caught by U.S. fishermen are now processed by the domestic industry. The species of fish of interest to foreign processors--such as hake and pollock--are not normally consumed by the American public or processed by the U.S. industry. We are informally advised by the Commerce Department that the 6 foreign fish processing vessels which have received permits will have no significant impact on domestic processors because they will handle hake or pollock. In our view the case has not been proven that U.S. processors would be at a competitive economic disadvantage vis a vis foreign processors. No problem exists now; domestic processors sought this legislation to prevent potential competition.

The strongest argument for this bill is essentially a political one--why alienate the bill's supporters when the immediate adverse impact on foreign fish processors will not be that great.

The solution proposed by the bill, on the other hand, does present a host of very real, immediate problems to the conduct of U.S. international economic policy. Even the Commerce Department, in its views letter, notes the "adverse consequences" to our international economic relations and lists almost the same problems identified by the other agencies. We do not see the value of meeting a theoretical and unproven problem with a solution that undermines current soundly-based policy and could seriously compromise on-going trade negotiations.

Accordingly, we recommend that you veto the enrolled bill, recognizing, however, that this may be a difficult action in view of the bill's influential sponsors, including Senators Magnuson and Jackson. A draft veto message is attached for your consideration.



James T. McIntyre, Jr.  
Director

Enclosures



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

August 25, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Jim McIntyre *Jim*  
SUBJECT: Enrolled Bill H.R. 10732

We have prepared for you an enrolled bill memorandum in which we and four of five economic and trade policy agencies recommend that you veto this enrolled bill which amends the Fishery Conservation and Management Act. I understand that the White House staff is virtually unanimous in recommending that you sign the legislation.

On the merits of the legislation, it seems to me, the agencies recommending a veto are correct. The bill would establish a trade barrier even though its effects could be mitigated somewhat in practice. The argument against a veto is perfectly respectable: the Administration did not clearly signal the extent of our disapproval to the Congress prior to enactment and Senators Magnuson and Jackson feel strongly about the legislation. My own assessment is that the political damage could have been mitigated if we had tried, but that opportunity has passed us by.

After considering the arguments of those who oppose a veto I still believe that, on balance, the legislation warrants a veto. This bill is typical of many which we will face in the coming months. It is small, relatively insignificant, and to veto it will upset important persons on the Hill. Nevertheless, the Presidential veto is a tool for imposing needed discipline on the legislative process. That process will frequently produce well-meaning but ill-considered legislation in order to respond to the vocal needs of some interest group -- only the President can prevent such legislation from becoming law.

I understand the political arguments and could easily see how you might reach a different conclusion regarding the balance between those arguments and the substantive ones. It is a close question in my own mind. I would note, however, that we lose a great deal of leverage by immediately accomodating the political concerns of

people on the Hill without requiring them to at least ask you to sign a veto candidate. That would allow you to build up some political credits which could be used when we needed some assistance from them.

I suggest that before you make your decision on this matter that you talk to Senator Magnuson so that he can make his case directly to you.

Congressional Liaison recommends that you call Senator Magnuson if you decide to veto this bill.

EIZENSTAT/MCINTYRE  
ATTACHMENT from 6/8

THE WHITE HOUSE

WASHINGTON

June 8, 1978

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT *Stu*

JIM MCINTYRE *Jim*

SUBJECT:

Regulation of Foreign Fish Processing  
Vessels in the U. S. 200-mile Fishery  
Conservation Zone

This memorandum requests your decision on the Administration's position on legislation relating to foreign fishing and fish processing vessels involved in fishing in our fishery conservation zone.

BACKGROUND: The Fishery Conservation and Management Act of 1976 requires foreign fishing vessels and foreign fish processing vessels (where fish are cleaned and packaged) to acquire a permit from the Commerce Department before fishing in the U. S. fishery conservation zone or buying and processing fish taken from the zone.

Two foreign processors have formed so-called "joint ventures" with U. S. fishermen and filed permit applications. The foreign processing vessels would buy types of fish, such as hake, for which there is presently only a small American market and processing capability.

Domestic processors are just beginning to develop the capability to process these species of fish, and want to avoid competition from foreign processors for the fish. Domestic producers strongly oppose issuance of permits to foreign processors. This is a very emotional issue in the Pacific Northwest and Alaska.

The Commerce Department has determined that the Secretary does not have sufficient legal authority to deny permits requested by foreign fish processing vessels, reversing an earlier position taken by the Department. Accordingly, Commerce plans to approve the two pending permit applications within the next few days.

PROPOSED LEGISLATION: Senator Magnuson has introduced a bill (S. 3050) with Senators Jackson and Stevens to amend the 1976 Act. Similar legislation has been introduced in the House by a number of Representatives.

The legislation has two principal provisions:

First, the bill gives U. S. fish processors preferential treatment by prohibiting Commerce from granting permits to foreign processors unless the U. S. processing capability is inadequate for processing the particular species of fish involved.

Second, Commerce would be given discretion to withhold permits from a foreign processing vessel if that vessel's nation has greater trade barriers against the importation of fish or fish products than those imposed by the U. S.

ISSUES NEEDING RESOLUTION:

1. Should Commerce be prohibited from granting permits to foreign processing vessels unless U. S. processing capability is inadequate for processing the particular species of fish involved?

Arguments in favor of this provision are:

- Domestic processors would receive the same type of protection given to the rest of the U. S. fishing industry, i.e., preference over foreign nations within our fishery zone.
- Supporters argue that domestic processors of fish species for which there is now only a small American market need protection from foreign competitors which generally pay lower wages and have lower safety and environmental regulations with which to comply.
- Opposition to this provision will probably be unsuccessful, short of a veto, due to apparent strong Congressional support. A veto would work political damage in the Northwest.

Arguments against this provision are:

- The case has not been proven that the U. S. processors would in fact be at competitive economic disadvantage vis a vis foreign processors.
- These export controls would violate the General Agreement on Tariff and Trade (GATT), and be inconsistent with our efforts to supplement the existing rules in the Multilateral Trade Negotiations (MTN). Such a GATT violation could prompt retaliation against the U. S.
- As a general policy, this Administration has opposed export controls. Export controls have been used at times to help remedy serious domestic shortages of raw materials, but never simply to provide low-priced raw materials. This bill could be a dangerous precedent, leading to the use of export controls by foreign nations on critical raw materials imported by the United States.
- S. 3050 would effectively require American fishermen to sell their entire catch to U. S. fish processors even if the foreign processing vessels offered higher prices. This threatens to establish a guaranteed market share for domestic firms regardless of their operating efficiency, which could result in higher prices for fish in U. S. food markets.
- Many U. S. fishermen would like competition for their products to break the "monopoly" which they see domestic processors exerting while others regard selling to foreign processors as "un-American" and favor a strong protectionist bill. Administration opposition to S. 3050 would be supported by fishermen, perhaps a majority.
- Although enactment of S. 3050 would have little impact on foreign fish processors in the near future, the protectionist policy would be established statutorily, and it is doubtful that such a policy could ever be abandoned.

Recommendations: Commerce recommends supporting the Magnuson bill with an amendment limiting it to a two-year interim period. Commerce is conducting a



-4-

study of measures to develop further the U. S. fishing industry and suggests that a review of the policy established by the bill could be made once the present studies are completed.

Stu Eizenstat and Jim McIntyre favor the Commerce position (a) as a reasonable compromise, particularly when viewed in light of the domestic processors' preferred policy of excluding foreign processing vessels altogether from our fishery zone, and (b) because total opposition of the kind necessary to stop the bill will alienate domestic processors and others in the Northwest (including Governor Straub, Senators Magnuson and Jackson, and other Democratic officeholders), and inflict more damage than the issue is worth.

Treasury, State, STR, and CWPS are opposed. These agencies are not convinced of the need for this legislation and believe that its enactment would be inconsistent with U. S. export policy and the positions we have taken in trade negotiations.

Decision:

\_\_\_\_\_ Support provision (not recommended by any agency)

✓ \_\_\_\_\_ ? Support as an interim measure (favored by Commerce, DPS, OMB)

✓ \_\_\_\_\_ Oppose provision (favored by State, STR, CWPS, Treasury)

2. Should Commerce have discretion to withhold permits from a foreign processing vessel if that vessel's nation has greater trade barriers against the importation of fish or fish products than those imposed by the U. S.?

All of the concerned agencies are opposed to the provision allowing Commerce to consider trade barriers in a foreign vessel's home nation when issuing permits for fishing and processing in our

*I prefer a more lenient position - Take a position in opposition to minimize violation of GATT - not veto*

fishery zone. Most attention and political support appears focused on preferential rights for U. S. processors rather than this provision of S. 3050, and the chances of successfully opposing this provision seem better.

Decision:

<u>                    </u>	Support (not recommended by any agency)
<u>                    </u> ✓	Oppose (favored by State, STR, CWPS, Treasury, OMB, DPS - Commerce defers)

PENDING PERMITS

Domestic fish processors have been exerting pressure to stop Secretary Kreps from approving the two pending permit applications for foreign processing vessels, and a story has appeared in an Oregon newspaper claiming that while on your Western trip you told Governor Straub you would prevent issuance of these permits until Congress has a chance to act on the legislation proposed by Senator Magnuson.

Commerce believes that the Department does not have any legal authority to deny or hold up approval, and fears a court order requiring the issuance of the permits. Further, approval of these permits would be consistent with the policy that would be established by the Magnuson legislation since U. S. processors currently do not have the capability to process the species of fish involved and the legislation permits permitting in that case.

<u>                    </u> ✓	Proceed to issue permits (all concur)
<u>                    </u>	Hold permits pending outcome of court case or adoption of legislation

Should we give Governor Straub special notice of our action in this matter?

<u>                    </u> ✓	Yes (all concur)
<u>                    </u>	No

THE WHITE HOUSE

WASHINGTON

June 9, 1978

Mr. President:

If you do not plan to veto the Magnuson bill, then it seems to me we should not oppose it. Otherwise we have the worst of all worlds. Why not simply endorse it if you do not strongly oppose the bill in order to get the political benefit in the Northwest?

*Stu*  
Stu Eizenstat

*Point out problems  
with it - Suggest  
2 year interim  
application*

*J*

WASHINGTON

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT *Stu*  
JIM MCINTYRE *Jim*

SUBJECT:

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Vessels in the U. S. 200-mile Fishery  
Conservation Zone

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PROPOSED VETO  
MESSAGE

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TO THE HOUSE OF REPRESENTATIVES:

I am returning H.R. 10732 without my approval.

This bill would require that American fishermen sell any fish caught in the 200-mile fishery conservation zone to American fish processing companies, rather than foreign fish processing ships, if there are domestic firms with the capacity and the desire to process the fish. H.R. 10732 would in effect establish export controls on raw material, in this case fish, designed to ensure that domestic processors will not have to compete with foreign processors for that material.

My Administration supports the objective of a prosperous, productive, and growing American fish processing industry, and we are taking steps to achieve that objective. Permanent export controls, however, at the expense of competitive markets for the catches of our fishing fleets and at a serious cost to our international economic relations, is the wrong approach.

The Department of Commerce proposed to the Congress that restrictions on foreign fish processing vessels operating in the 200-mile fishery conservation zone be limited to two years, during which time the Department would complete a comprehensive study of the U.S. fishing industry. The Congress, however, chose to make the restrictions permanent, despite the fact that the problem which H.R. 10732 seeks to address -- damage to domestic industry by excessive foreign competition -- is potential, not actual.

The United States has vigorously opposed export controls of this type and has suffered economic losses when such export controls have been imposed by other countries. We continue to seek broader international agreement on the use of export controls, as mandated by the Trade Act of 1974. In the current Tokyo Round of trade negotiations, we have called for a set of rules which would limit the use of export

controls. Our negotiations, as well as the intent of Congress in this regard, would be seriously undermined if the United States were to adopt permanent export controls on fish.

The objective of this legislation -- the development and health of the domestic fish processing industry -- is already being actively sought in the Multilateral Trade Negotiations. We have requested a number of countries to reduce barriers to U.S. exports of products substantially. This would enhance export opportunities for the U.S. fish processing industry. The enactment of H.R. 10732 in its current form, however, would violate our international economic obligations and threaten the success of our negotiating efforts.

For this reason, I am compelled to withhold my approval from this bill.

THE WHITE HOUSE,



THE WHITE HOUSE  
WASHINGTON

August 28, 1978

Landon Butler

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson

August 27

Mr. President -

Secretary Marshall called on the potential postal strike. He feels that there will be one in all likelihood but does not advise your doing anything at this point.

The Postal Service believes it can still deliver the mail in the event of a strike. They hope to come to some agreement eventually through the Federal Mediation and Conciliation Service rather than renegotiating a new contract. The latter would necessitate taking it back to the Union membership for a vote, and they hope to avoid this.

fran

*Be prepared to do so*  
*agree*  
*fran*